DÁIL ÉIREANN

AN COMHCHOISTE UM AIRGEADAS, CAITEACHAS POIBLÍ AND ATHCHÓIRIÚ

JOINT COMMITTEE ON FINANCE, PUBLIC EXPENDITURE AND REFORM

Dé Céadaoin, 25 Samhain 2015

Wednesday, 25 November 2015

The Joint Committee met at Noon.

MEMBERS PRESENT:

Deputy Tom Barry,	Senator Catherine Noone.*
Deputy Richard Boyd Barrett,	
Deputy Eric Byrne,*	
Deputy Marcella Corcoran Kennedy,*	
Deputy Michael Creed,	
Deputy Timmy Dooley,	
Deputy Robert Dowds,*	
Deputy Gabrielle McFadden,*	
Deputy Michael McGrath,	
Deputy Kieran O'Donnell,	
Deputy Arthur Spring,	
Deputy Peadar Tóibín,	

* In the absence of Deputies Ciarán Lynch, Ciaran Cannon, Pat Rabbitte, Regina Doherty and Senator Paul Coghlan, respectively.

DEPUTY LIAM TWOMEY IN THE CHAIR.

The joint committee met in private session until 12.10 p.m.

Credit Union Sector: Discussion

Chairman: We are here to review the credit union sector with the Credit Union Development Association, the Credit Union Managers Association and the Irish League of Credit Unions. I welcome Mr. Kevin Johnson, chief executive officer, and Ms Elaine Larke, from the Credit Union Development Association; Mr. Sean Hosford, chairman, and Ms Lisa Stapleton, from the Credit Union Managers Association; and Mr. Ed Farrell, chief executive officer; and Mr. John Knox from the Irish League of Credit Unions. The committee should note that the registrar of credit unions at the Central Bank, Ms Anne Marie McKiernan, was not available to attend today's meeting as she has a prior commitment which could not be altered. However, she has expressed a willingness to meet the committee. The secretariat is looking at possible dates for this engagement before Christmas and the meeting will most likely be on 16 December. The format of the meeting is that each of the representatives will make a short opening statement lasting five minutes. I remind members, witnesses and those in the Visitors Gallery that all mobile phones must be switched off.

I advise witnesses that, by virtue of section 17(2)(*l*) of the Defamation Act 2009, they are protected by absolute privilege in respect of their evidence to the committee. However, if they are directed by the committee to cease giving evidence on a particular matter and they continue to so do, they are entitled thereafter only to qualified privilege in respect of their evidence. They are directed that only evidence connected with the subject matter of these proceedings is to be given and are asked to respect the parliamentary practice to the effect that, where possible, they should not comment on, criticise or make charges against any person or an entity by name or in such a way as to make him, her or it identifiable. Members are reminded of the long-standing ruling of the Chair to the effect that they should not comment on, criticise or make charges against a person outside the Houses or an official by name or in such a way as to make him or her identifiable.

We must vacate this room by 2.15 p.m. which means we will keep the debate fairly tight. Each of the representative organisations will have five minutes to make an opening statement. Main spokespersons will have ten minutes and after that, it will be five minutes. I will stick to that schedule.

I call on Mr. Johnson to commence.

Mr. Kevin Johnson: Good afternoon Chairman and members. CUDA is grateful for the invitation to discuss topical issues pertaining to credit unions. CUDA was formed in 2003. It is owned by and represents many of the largest credit unions in the country. It also provides a wide range of support services to them and a growing number of credit unions throughout the country. I am the CEO of CUDA and I am joined by my colleague, Ms Elaine Larke, who is head of legal and compliance at CUDA. Members have a copy of my slides which I will go through.

The blueprint for the future of credit unions in Ireland has been set out in the report of the Commission on Credit Unions which was published in April 2012 and resulted in the Credit

Union Act 2012. The commission's report provided a factual insight into the financial position of credit unions. It looked at international best practice and presented its views on where the credit union movement in Ireland should be headed. It went on to make proposals for stabilising and restructuring the sector and for strengthening the legislative and regulatory frameworks, including an improved governance regime. We are now in the final stage of implementation which should see the introduction of a tiered regulatory framework. Unfortunately, we are not getting that and this deviation has the potential to place the credit union movement in jeopardy.

CUDA works with credit unions to help them develop their business models in line with their requirement to remain viable and relevant. These business models reflect the needs of the credit union members. Like the commission, we realise that not all business models are or will be the same. The commission envisaged an environment that offered a flexible approach to the regulation of credit unions and assists credit unions in determining the business model they wish to adopt. Some examples have been illustrated on slide No. 3. It was to allow some credit unions to continue to offer basic savings and loans. It was also to allow other credit unions to develop and offer a greater range of services as long as they have the necessary scale and comply with specific additional requirements. This is what is meant by a tiered regulatory framework.

While sharing the same ethos, values and principles, the business models vary as they are driven by the needs of their respective members. Slide No. 4 demonstrates the breadth of needs that exist which can be categorised across personal business and community needs. CUDA supports credit unions to achieve their clear vision of helping members become financially independent through access to financial services, products and education. CUDA has identified a spectrum of co-operation which ranges from knowledge sharing right through to the good work of the ReBo team who support credit unions which wish to merge.

In 2011, CUDA developed the credit union support platform. Building on that success, CUDA introduced a shared compliance and risk management officer service and now a series of exciting and innovative projects are ongoing under the auspices of the solution centre. There is little point in working on expanding these services if we do not have an enabling regulatory and legislative framework that supports the development of enhanced business models.

Credit unions have taken on significant change and the *quid pro quo* was that there would be a tiered regulation. Unfortunately, the Central Bank is now choosing to deviate from the commission's recommendations. New regulations for credit unions, following the consultation paper CP88, primarily focus on minimising or eliminating risk to the detriment of the appropriate development and evolution of the sector.

The vast majority of credit unions are financially sound, compliant, competent and ready to provide more services to more people. It is time to recognise that fact and to allow them to do what they do best which is to offer the services their members rightly expect from a modern credit union. Strangling credit unions with over-zealous regulation will see their demise and force credit union members to switch to more expensive banks. There is a simple answer to this dilemma. Before the Minister, Deputy Noonan, allows further rules to come into effect, by commencing the remaining sections of 2012 Act, he should conduct a review on how the commission's recommendations are being implemented and whether the legislation and regulations reflect the current needs of credit union members. This will afford the opportunity to ensure there are no unintended consequences and that all the good work of all the stakeholders, is not unravelled.

Mr. Sean Hosford: My name is Sean Hosford. I am the chair of the Credit Union Managers Association, CUMA, and I am joined today by my colleague Ms Lisa Stapleton. I thank the Chairman and members of the committee for invitation to come here to discuss recent regulatory matters and their impact on the credit union sector.

CUMA is the professional representative association for managers of credit unions in Ireland. CUMA provides professional development training and assistance to its members and engages with a wide range of stakeholders and industry bodies in our pursuit of excellence in professional standards in credit union management. Our main priority is to ensure that members' savings are protected through prudent, transparent and effective professional management.

CUMA fully supports the introduction of a strong regulatory framework for credit unions as recommended by the Commission on Credit Unions. Credit union boards and management teams have successfully introduced major regulatory changes over the past three years. The introduction of these new requirements in the areas of risk, compliance, internal audit, fitness and probity and minimum competencies, policies and procedures were, we understood, designed to prepare credit unions for the future growth and development of our sector. This we believe would enable credit unions to further provide excellent high-quality services on a local basis to local communities.

Despite the prophecies of many, we have come through the financial crisis relatively unscathed and are well placed and prepared collectively and locally in the interests of our members to move to the next exciting stage of our development. However, CUMA is extremely disappointed at the outcome of the consultation process with regard to CP88. Following consultation with the movement, the Central Bank received 117 submissions all of which rejected the proposed regulations for sound business reasons. Having reviewed and then ignored these submissions, the Central Bank is proposing further restrictions on our business, the most controversial and ultimately damaging to credit unions being a cap on shares, a new short-term liquidity requirement, a cap on lending terms and, most controversially, the intention of the bank to regulate credit unions on an undifferentiated one-size-fits-all basis. CUMA believes that some of these proposals run contrary to the objects of credit unions, as enshrined in credit union legislation, and are disproportionate, unnecessary and potentially damaging to our future growth.

CUMA has contended in the context of previous consultation papers that the sector should not be regulated on a one-size-fits-all basis. Rather, we contend that a tiered regulatory approach which supports growth and development and which can be adapted to reflect proportionality and complexity, as recommended by the Commission on Credit Unions, would be more appropriate. This type of model is recognised as a strategy requirement in the Central Bank's strategic plan for the period 2013 to 2015. All stakeholders, including Government and the Central Bank, signed up to the recommendations of the Commission on Credit Unions. Credit unions have complied with the new extensive governance requirements as outlined earlier. We have participated in restructuring and have awaited the tiered framework to allow us to evolve under regulations based on the nature, scale and complexity of our chosen business model. The Central Bank, however, has diverged significantly and on a selective basis from the agreed set of recommendations by omission and by planning the introduction of this most recent manifestation of the one-size-fits-all regulations that will undermine the sustainability of credit unions, both small and large.

CUMA is concerned that the planned commencement at the end of December, without amendment, of the remaining sections of the Credit Union and Co-operation with Overseas

Regulators Act 2012 and the regulations set out in the Central Bank's CP88 pose a significant threat to the competitive viability of the credit union sector. We believe CP88 regulations are an unnecessary involvement by our regulator in the day-to-day operations of credit unions. CUMA, therefore, calls on the Minister for Finance not to commence the remaining sections of the Credit Union and Co-operation with Overseas Regulators Act 2012 pending a focused review of the proposed regulations in line with the recommendations of the Commission on Credit Unions.

Mr. Ed Farrell: I am grateful to the Chairman and members for inviting the Irish League of Credit Unions to make a presentation on regulatory reform and its impact on credit unions. I am joined today by John Knox from the research and development department of the league. The Irish League of Credit Unions represents 437 credit unions across the island of Ireland. The league-affiliated credit unions in the Republic of Ireland have almost 3 million members, savings in excess of €11 billion and over €13 billion in total assets.

As the committee is aware, credit unions are a voluntary, visionary movement. Members own and run their credit unions. Being a grassroots, not-for-profit organisation founded and run for a social purpose, credit unions are a unique financial institution. Democratically run, volunteer-led, and based on helping members and not profiting from customers, our ethos sets us apart.

The economic crash has put enormous pressure on families and credit unions have been there for them. Now we want to do more. The clear, focused policy steps we advocate will strengthen credit unions, ensure that prudent lending is available to those who cannot access it elsewhere and make a major contribution to key national objectives including social housing and small business. The specific policies we advocate for are set out in the league's six strategic steps policy document.

Credit unions have an exciting developmental agenda as demonstrated by our payments company CUSOP. We are rolling out electronic payment facilities in credit unions and with some financial assistance this could be done much more quickly. As members will know, providing loans at affordable interest rates for those who cannot access credit elsewhere is the reason credit unions were established. With this in mind, credit unions are at the forefront of a project to provide those on welfare with a real alternative to moneylenders. Led by the Department of Social Protection and in conjunction with the Social Finance Foundation, over 30 credit unions are involved in a six-month pilot of a new loan scheme which we hope will be a solution to this pressing social need.

Providing credit to small and micro-businesses is something credit unions already do and is a key contribution our movement can make to a recovering economy. Our aim is to create a central fund in which individual credit unions could invest so that loans would be available to small businesses nationwide. Expertly supported and effectively regulated, pooling the resources participating credit unions hold individually will ensure availability of credit more widely throughout the economy. This would match available credit union capacity with small enterprise that needs credit to survive and develop. This proposal meets a need that clearly is not being adequately met by other lending agencies and it is in keeping with the social, community-based objectives of our movement.

Serving a broader social agenda is part of what credit unions were set up to do. At present, credit unions hold surplus funds of €8 billion in investments on behalf of members. We believe these surplus funds could be used more effectively. Under current regulations, there are limited options for the management and placement of these funds. We believe these funds could be better used to deliver key social goals, while also fully protecting them. For example, credit unions surplus funds could be used to assist in important areas of Government policy such as social housing. In this regard we have recently submitted a detailed proposal to the Minister for the Environment, Community and Local Government. However, a major barrier to this and many of the other initiatives I have outlined is the impending regulations which are due to apply to credit unions. The final sections of the Credit Union and Co-Operation with Overseas Regulators Act 2012 are due to be commenced in January 2016 and the accompanying regulations will place limits on the savings credit unions can take in from their members, but also limit the types of investments they can make. There now is a growing disconnect between the ethos of credit unions and that of our regulator, the Registry of Credit Unions, which sits within the Central Bank. That disconnect is highlighted again in the recent publication by the Central Bank of the report by the International Credit Union Regulators Network, ICURN, entitled Central Bank of Ireland Peer Review Report: Central Bank Performance of its Regulatory Functions in Relation to Credit Unions. We note the ICURN review team expressed concern at the sheer volume and complexity of the requirements with which credit union boards of directors and management must now comply. It therefore is very frustrating that the views expressed on behalf of credit unions regarding the overly onerous regulatory approach of the Central Bank have not been taken into account or acknowledged.

This is not about being for or against regulation. It is about better, more effective regulation and doing the right thing. A lot has changed since the report of the Government's Commission on Credit Unions was published and its recommendations partially implemented and the Government's own analysis of Ireland's economic position says as much. Now is the time, we strongly believe, to pause briefly, review and then move forward on the basis of better regulation for the future of credit unions. I again thank the joint committee for its invitation.

Chairman: I thank Mr. Farrell. Before I call on Deputy Michael McGrath to begin proceedings, I presume the witnesses have seen the transcripts of the debate last night on the Private Members' motion in the Dáil. I am aware some of the witnesses already have had meetings with the Minister and his officials. The joint committee intends to prepare a report to be submitted to the Minister and the regulator will appear before the joint committee on 16 December. Consequently, when replying, witnesses should bear in mind that the committee will try to tease out more answers for them with the regulator and the Minister. Consequently, they can put such points on the record when giving their replies.

Deputy Michael McGrath: I welcome the three organisations before the committee, namely, the Credit Union Development Association, CUDA, the Credit Union Managers Association, CUMA, and the Irish League of Credit Unions. This meeting is a great opportunity for the credit union movement to state its case before an Oireachtas joint committee, and in their presentations the witnesses have done this clearly and cogently. It is clear that there is a huge amount of goodwill towards credit unions across the political spectrum. However, it also is clear that this no longer is enough and credit unions now need practical support at a political level to ensure the movement has a viable future. At the outset, I will express my hope that the outcome of these hearings will be that agreement can be reached on an all-party and non-party basis to call on the Minister to press the pause button and to not sign into law the remaining sections of the 2012 Act pending a review of the implementation of the recommendations of the commission. I hope such an agreement can be reached, and I am putting down a marker that I do not believe the joint committee can wait until after meeting the registrar on 16 December to make that recommendation, because the horse could well have bolted by then. That is my view, but it will be a matter for members to make that final decision.

One key issue that continues to emerge is this one-size-fits-all approach to regulation and the non-implementation of the recommendation from the commission for a tiered approach to regulation. I note Mr. Johnson addressed this point in his presentation, in which he outlined three separate strands, but on a day-to-day basis, what difference does this uniform regulatory approach make to credit unions despite the diverse nature of independent credit unions in terms of scale, complexity and their day-to-day operations? What problems is that causing?

Mr. Kevin Johnson: I thank Deputy Michael McGrath for the question. The idea of setting out on the third slide that illustration of what business models could be like was an attempt to reflect the obvious diversity within each credit union. The problem is that when one is pitching one-size-fits-all rules, it is aiming at an average, and we do not have an average credit union. Incidentally, if one goes back to the objective of the commission report, the idea behind tiered regulation was twofold. In the first instance, it was to protect the smaller credit unions, which does not necessarily just mean size - although it tends to be related to the asset size - but means smaller in the sense of its business model, that is, in the services it provides. In looking at that illustration, it would be the more traditional model of basic savings and basic personal unsecured loans. The idea here is that appropriate governance would reflect this in order that the cost of meeting all these regulatory requirements would be proportionate to the level of business the credit union is doing. On the other hand, other credit unions are much bigger in size and scale and could have 30,000 or 40,000 members. Consequently, the joint committee can imagine the diversity of needs in such credit unions, as some may be community-based and some may be industry-based.

In the fourth slide, we are trying to show the wide range of needs people have, which can be personal or for small business, things at which credit unions again traditionally have been very good, as well as some of the other opportunities to provide some genuine competition on home loans and to provide some proper financing for social housing. There are many different ways to so do and, as was mentioned last night, several proposals have been submitted to the various Departments. Again, to be allowed to move on and to provide more services, we expect that a little more risk will be taken on and, therefore, we accept that it is proportionate that those risks would be managed. However, one cannot have a situation in which the average one-size-fits-all model takes in all of the requirements. For example, over the past two or three years, credit unions have been obliged to develop compliance officers, to implement risk management frameworks with a specific risk officer and to introduce internal audit functions. That may be totally overplayed in respect of the small, traditional business model, but for those that now have this in place and are building up such expertise and competence, we believe this is the appropriate platform from which to provide more services, because one has put in place the risk management structures and infrastructure. To be blunt, to be able to pay for all of that, one must be able to generate the income to cover it. The great thing is that in so doing, we are providing a lot more services for a lot more people.

Deputy Michael McGrath: As my time is limited, I have one question each for the league and for CUMA. In the dark days of October 2011, the Minister for Finance told the Seanad that the cost of rescuing credit unions could be between €500 million and €1 billion, but thankfully this was far wide of the mark. However, Mr. Farrell probably is best placed to tell members today what the underlying health of the credit union sector is. There have been problems in individual credit unions and some high-profile cases, but at present, in November 2015, what is the state of the credit union movement and of the credit unions represented by the Irish League of Credit Unions? While obviously there will be consolidation, are bailouts in prospect? I ask Mr. Farrell to give members a sense of the underlying health of the sector.

Mr. Ed Farrell: Deputy Michael McGrath is correct that four years ago, very large numbers were being pushed about. We always objected to those numbers, having conducted our own stress tests on the figures for the credit unions individually and for the credit union movement, and we thought those figures were way off. Four credit unions have received assistance from Government funds over the past four years - that is, 1% of credit unions - of approximately €20 million.

Through the league's own savings protection fund, which is a prudent rainy-day fund it set up 20 or 30 years ago to help credit unions that might get into financial or other difficulty over the years, the league has helped a small percentage of credit unions over those tough days since Ireland came into the global financial crisis. That fund had €120 million in it five years ago and still has €100 million in it after helping a small percentage of credit unions. If one rolls forward to September 2015, the credit union movement across the board has 15% in capital, while it needs to have 10% in capital. As I stated earlier, credit unions have €13 billion in assets and the capital requirement, if one likes, is 10% of total assets. This is one of our ongoing issues with the regulations, in that it is not risk-weighted. Anyway, the capital requirement at 10% is €1.3 billion. The credit unions have €2.2 billion in capital, which means that we have €700 million or €800 million extra. We have better capital reserves than we need.

Some credit unions are merging through the auspices of the Credit Union Restructuring Board, ReBo, while others are merging with capital assistance from the savings protection fund. We have handled half a dozen of these so far this year and do not believe anything unforeseen will happen. A handful of credit unions are just under the 10% minimum figure and we are working with them on a stand-alone basis or helping them to merge with a view to bringing them above the 10% level.

The good news is that there is €3.5 billion in loans. We have €13 billion in assets, €11 billion in savings and €3.5 billion in our loan books. We have turned a corner. In the past two quarters there has been a slight increase in the loan books of approximately 0.5%. After the onslaught of the recession, many people turned away from borrowing and repaired household balance sheets, as we have heard. That the total credit union loan book has started to grow in the past two quarters is important if credit unions are to increase their incomes.

Deputy Michael McGrath: I thank Mr. Farrell. I will discuss with Mr. Hosford the issue of section 35 lending restrictions. Representing the managers' body, he is well placed to tell us what impact they are having. The commission recommended a review of the operation of section 35, but lending is credit unions' bread and butter. Without being able to lend, they do not have a viable business model. What impact does section 35 in its current construction have on the day-to-day operation of credit unions?

Chairman: I ask Mr. Hosford to be brief.

Mr. Sean Hosford: Section 35 limits the value of loans we can have for longer than five and ten years. We like to believe we are coming out of the tail end of the recession. Demand for loans is beginning to grow. As the committee can imagine, any restriction on our lending in the marketplace damages our business. We accept that our core business is personal lending of less than five years' duration. We are good at it, but, as the committee knows from discussing the housing crisis, there is pent-up demand for longer term lending. The section 35 limits and the proposed 25-year limit in consultation paper 88, CP88, will affect our ability to lend money to our members.

Deputy Michael McGrath: I thank Mr. Hosford.

Chairman: Deputies Marcella Corcoran Kennedy and Arthur Spring are sharing time and can decide how they want to proceed themselves.

Deputy Arthur Spring: I am under pressure because there will be votes at another committee. I thank the Chairman.

I thank the delegates for presenting. I have engaged on this issue numerous times nationally, as well as locally. I subscribe to the idea that the credit union model is the best in terms of local knowledge and the personal touch. Since the pillar banks are moving further and further away from this model, credit unions' current model of short-term lending places them in a position where they can capitalise on their relationship management.

I would like to see the credit union movement heading into the mortgage sector. It has considered how it can assist communities via social housing, something in which the banks will not become involved. They will provide no community gain in that regard despite the fact that we own them.

Deputy Michael McGrath hit the nail on the head. The movement has a problem. It is in discussions with the Department of Finance and this issue will be debated in the Dáil tomorrow. The movement is getting political support from across the board, but is there a way to put credit unions in a regulatory format that will leave them as individuals, while affording them the autonomy required to deal with a regulatory body in the same capacity as the banks? This is the comfort blanket the Central Bank and the Department of Finance need. It will give credit unions the capacity they need to expand and the key ratios may loosen.

Mr. Sean Hosford: The simple answer is, as the three of us have stated, tiered regulation. We should regulate credit unions according to their scale and the complexity of their business. The original proposal which the Central Bank asserts was rejected in CP76 was related to scale, that is, over or under a figure of €100 million. In their submissions on CP76 the three organisations made it clear that they were in favour of tiered regulation but not in the manner - purely on scale - the Central Bank wanted to do it. There are credit unions with a figure of €10 million or €15 million that are well capable of doing the same business in a safe manner as some of the larger credit unions, whereas there are credit unions with a figure of €50 million that may not be able to do this. Basing tiered regulation on nature, scale and complexity was the commission's recommendation. Last night the Minister of State, Deputy Simon Harris, stated the commission's recommendations were clear Government policy. We are asking for nothing more than what was contained in these recommendations.

Deputy Arthur Spring: Tiering regulation in that way leads to complexity in administration. Is there any way to simplify it for the purpose of giving regulatory bodies comfort as regards what the credit union movement is trying to do and its expansion?

Mr. Kevin Johnson: I will address that question. It is an interesting one, as there is a danger one will create a contradiction. According to an interesting survey recently conducted by Customer Experience Insights, CEXi, to review all 157 brands in Ireland across all industries, credit unions were the most trusted. It is incredible that a financial organisation would be regarded in this way. As the Deputy rightly stated, one of the great strengths of credit unions is their local presence. While there has been some consolidation which has strengthened credit unions, they have managed to maintain their presence in local communities. That is important.

Given the initiatives that would involve greater lending in support of the likes of social housing, the legislation and regulations need to be examined. A credit union would run into a commercial problem with the latter straightaway. It might have the necessary expertise, but only 10% of its loan book could extend beyond ten years. There are also legislative constraints on the market credit unions can serve.

Chairman: Deputy Arthur Spring's time has concluded.

Mr. Kevin Johnson: Central supports could help.

Deputy Arthur Spring: I advocate for a form of cross-guarantee or central support. I just wanted to know whether that was from where credit unions would draw comfort. I am conscious that my time has concluded.

Mr. Kevin Johnson: The credit unions are capable of moving forward and serving their communities. Greater collaboration is emerging which should help.

Deputy Arthur Spring: But their individual capacity is brilliant.

Mr. Ed Farrell: The savings protection scheme, a quasi-cross-guarantee, would also help. Credit unions pay into it. On the off chance that a small number of them need financial or resourcing assistance, it can be and has been made available. It is about the movement keeping itself solvent in line with the regulations.

Deputy Arthur Spring: Making it larger might-----

Mr. Ed Farrell: The Governor of the Central Bank acknowledged this in recent speeches.

Deputy Marcella Corcoran Kennedy: I thank members for supporting my correspondence asking that this matter included in the committee's work programme. It is timely and important and I thank the representative bodies for attending. In Mr. Farrell's opinion, what has been the greatest change in the credit union movement? I am a strong supporter of it and a member of a credit union. From the report, I see the type of lending has changed considerably. The movement has transitioned from being a local, small loans organisation to a lender of larger loans.

Mr. Ed Farrell: The greatest change has been in the regulatory structure. Since moving from the Registrar of Friendly Societies to the Registrar of Credit Unions within the Central Bank, there has been a rewrite of the rule book on how credit unions operate. There has also been a great deal of hardship for them, their business, paid employees and volunteers. There has been a huge change in governance, which as Mr. Kevin Johnson said earlier we have bought into and implemented. The additional paperwork and regulatory burden in respect of the smaller loans has made it much more difficult for credit unions to do character based lending, with which traditionally they would have been very good. They would have been able to lend on a person's previous record of repaying his or her loan and from knowing the character of a person from the community of the credit union but now lending is based on rules, regulations and paperwork. If the credit union does not have the right paperwork and background checks on the person, even though it knows the person is good for the loan, then it is very difficult to do business with the same people for which the credit union was established to do business. The most significant change has been the rules and operations around lending practices, even for smaller loans.

Deputy Marcella Corcoran Kennedy: Mr. Farrell mentioned earlier that he had met the Minister for Finance, Deputy Noonan. A number of the queries that credit unions in County Offaly and north Tipperary raised with me centres on their concern about the maximum deposit levels and the first charge on certain loans. Subsequent to that meeting has there been clarity on any of these issues?

Mr. Ed Farrell: The three organisations met the Minister for Finance the week before last and we repeated our main concerns with the proposed regulations, on the savings limit and some of the lending rules. We are pleased that he has met us and acknowledged that the credit unions have a major issue. We are meeting the Secretary General of the Department of Finance later this week to see if we can reach some solutions or that the Secretary General can act as an honest broker between the credit union movement and the Central Bank to see whether there is a compromise on some of the major blocking points.

Deputy Marcella Corcoran Kennedy: I have a question on the alternative to the moneylenders. I understand there is a pilot scheme with the credit unions, the Social Finance Foundation and the Department of Social Protection. When will that be reported on?

Mr. Ed Farrell: In total there are 30 credit unions, with credits unions from each of the three organisations. My colleague, Mr. John Knox, Mr. Sean Hosford and one of Mr. Kevin Johnson's colleagues sit on a stakeholder implementation project group. That project is being officially launched on Friday by the Tánaiste and the Minister of State in the Department.

There was a soft roll-out last week so about a dozen loans have been made in the pilot project among the 30 credit unions. All the stakeholders in that project are very pleased because a lot of work had to be done to get a simple loan product across the table so that people on welfare with household budgets could apply for and get a loan with less red tape and paperwork than what I outlined. Everybody is very pleased that this is up and running and that a dozen loans have gone out in the first couple of days. There will be more about it on Thursday.

Deputy Peadar Tóibín: Go raibh maith agat. Fáiltím roimh na finnéithe.

There is a major problem in the banking system, which is a tight concentrated oligopoly and it means behaviour of the banks is not tempered by their need to meet the needs of citizens. There is a problem in the structure. Credit unions can provide a solution to that problem with the structure.

Sinn Féin supports the credit union movement playing a greater role in the area of financial products. There seems to be an ideological brake with regard to the sector evolving further. I notice the use of language in today's presentation, with words such as "jeopardy" and "threat" being used. This is a major difficulty currently for the sector.

Obviously another factor of the credit union sector is the social enterprise element. Most people think of social enterprise as very small constructs. This is a social enterprise with €13 billion in assets. It is one of the largest financial social enterprises I am aware of. As is the case with my party, it is an all-Ireland body, which is always good.

We live in a society with major problems with moneylenders and with finance for small businesses and housing. It is hard to believe that the credit unions have a capital surplus and yet it is being kept away in terms of addressing outstanding issues. Why is the Central Bank deviating from the initially agreed tiered regulatory approach? The witness can self-select in regard to who answers that question.

Mr. Sean Hosford: It is very important to factor in that all the stakeholders endorsed the recommendations of the commission. It was endorsed as a package. For example, all of the new requirements around governance, including the significant cost that came with it, were to be balanced by being proportionate to the nature, scale and complexity of the business of each credit union.

The Deputy makes a very valid point regarding the distinction between the structure of banking and credit unions. The credit union is an integral part of the community. It is a self-fulfilling success. That is the reason why credit unions succeed. We need to be very careful not to dismantle that. We have to build on the strengths that are there and not try to mimic something else that has failed in the past. The ideology has not changed. We are simply seeking to modernise it. We are also seeking to be able to satisfy the needs of more people. The Deputy asked earlier about small loans, which is still a core element of the business, but much more can be done.

There were very good examples of credit union involvement in social enterprise. A credit union in Galway was mentioned last night. I am familiar with one in Galway that funded an enterprise centre which now provides significant employment. It has a major social and economic benefit. This is what credit unions can do.

The point in regard to the Central Bank is a question for the registrar. Our view is that the Central Bank is being over-zealous. It is taking risk management to the extent where it is risk prevention. We have built up skills around risk management in recent years and we believe that credit unions are in a position to do more for people.

Deputy Peadar Tóibín: I have two questions for Mr. Farrell. Six steps have been set out in respect of the strategic plan. Will he outline which ones arise from regulatory changes, policy changes and legislative changes? Will he discuss the arm's length housing funding operation and what it will look like?

Mr. Ed Farrell: One of the six steps is the micro credit pilot, which was to get a pilot scheme up and running. It was more a regulatory procedure rather than any changes and the regulator. The registrar's people are part of the project group. They have been able to work with the group.

Housing and the small business are the two sectors that will need regulatory changes over investment rules that credit union are bound by at present. Credit unions have very few options on where to place the surplus money they do not lend. If they do not lend the money to their members, it is really a choice between bank deposit accounts or Government and-or bank bonds. Some 80% to 90% of our surplus money is in bank deposit accounts lying largely idle and earning very small income. It is against that background that we have the central vehicle in the six-step plan for small business and social housing to try to have a central pool of money so that the credit union, subject to the regulator changing the investment rules, could place the money into a central fund or trust. There would be expertise employed by that trust to assess the loan for the SME or the loan to the housing body for the social housing. We are trying to centralise decision making and underwriting to convince people that this is a safe and prudent alternative use of credit union funds.

We launched our social housing proposal on international credit union day, approximately a month ago. When the Government launched its social housing strategy at the end of 2014, it talked about the formation of a financial vehicle into which pension funds and credit unions could place money which could then be used to build social housing. In our early engagement with the Department of the Environment, Community and Local Government, it became clear that it was a medium-term, rather than a short-term, priority and the Department asked us to think about the issue in some other way. Our paper contains two options. It makes reference to the Government's financial vehicle but also leaves open the option of credit unions creating their own financial vehicle, which would have underwriters and lending people who would access the loans from the approved housing bodies, namely, the not-for-profit companies which build social housing. This puts it further from the State's balance sheet. We were asked to do this by the Department because its vehicle was for the medium term, whereas we have the money ready to roll. We look forward to engaging with the Department and there is a meeting next week to get it started. It would require a small enough regulatory change to allow the investments, and not just bank deposits, to be formed in a central pool, properly managed and regulated as a central vehicle to lend to housing bodies that are also regulated entities.

Deputy Peadar Tóibín: Has the Credit Union Managers Association approached the Strategic Banking Corporation of Ireland, which used the two pillar banks to try to get funds? The ReBo process was to finish in 2016. There is a €250 million fund and credit unions are looking for the balance to be invested. How would that work?

Mr. Sean Hosford: On the first question, I do not think-----

Mr. Ed Farrell: A social housing proposal was launched a month ago and we are days from launching a similar paper proposing a central vehicle for SME lending. An accountancy firm is assisting us with these proposals and it is familiar with the workings of, and the people in, the Strategic Banking Corporation of Ireland. Some of the proposals in the paper will consider the question of the Strategic Banking Corporation of Ireland providing funding to banks to lend on. It will ask whether we could be a part of the on-lending, although the credit unions would not provide funding to the Strategic Banking Corporation of Ireland for it to give to the pillar banks to on-lend. We would try to work with a slightly different model. It will be our money ultimately going to SMEs in the localities of our various credit unions. The paper will be out in a couple of weeks and we will have a meeting with those people to see if there could be a solution there.

Deputy Peadar Tóibín: My other question was on the balance of the €250 million.

Mr. Sean Hosford: The lifetime of ReBo has been extended to March 2016 and we believe any applications made before the end of March 2016 will be dealt with in the rest of the life of the scheme. As regards the funding model, we believe the UK credit unions are being funded by central government in the area of additional services, and particularly in the area of technology. We understand the Government has to work very closely within EU rules on state funding, but it is an initiative that we could certainly discuss further.

Mr. Kevin Johnson: The Credit Union Development Association met with the Strategic Banking Corporation of Ireland, but credit unions are extremely well positioned to provide funding directly for social housing. As Mr. Farrell outlined, there is a mechanism to do so as an investment. We have produced a very detailed proposal on how this can be done as a loan, which is traditional within the credit union business. We are very happy to share that with the committee because we have been working on it for some time and it would be fantastic to get the support of the committee for it. It requires a small enhancement - not a change - to the legislation to permit the credit unions to do it. I would be more than happy to circulate that.

Chairman: Mr. Johnson might send it to the secretariat and we will take it from there.

Mr. Kevin Johnson: Certainly.

Deputy Robert Dowds: Some of my questions have already been answered. What would the witnesses see as the advantage in delaying the implementation of CP88? How would the witnesses see the modernisation of credit unions, with modern technology and so on, coming about? There would obviously be a hope of some Government involvement. How might that work out?

On providing funding for social housing, would the Government be the borrower? How would it operate in practice? Some credit unions are very substantial bodies while others are small. Would a programme of widespread amalgamation assist the smaller credit unions in strengthening them and their operations? It is really important that we continue to have a very strong credit union movement and it is even more important now, for the reasons Deputy Spring mentioned, with so many commercial banks becoming more removed from the general public.

Mr. Sean Hosford: On CP88, it effectively comes back to the recommendations of the commission. That was the agreement, but we have got to this stage and some of the recommendations have not been acted upon, particularly those on tiered regulation and the review of section 35. These were major issues. The Minister signs the order on 31 December and it is then the Central Bank's role to regulate it. We have no issue with that, but we agreed to something and yet have only got 75% of it. We are being asked to move on, but it is not fair to ask us to do that. The Government made the agreement and this is its policy.

Deputy Robert Dowds: I support Mr. Hosford in looking for that pause.

Mr. Sean Hosford: On the question on technology, it goes back to the size of credit unions. In my day job I am the CEO of a fairly large credit union. Mobile technology, digital marketing and such stuff are important to us as they are the gateway to our younger members, whom we have difficulty attracting because of the business model we operate at the moment. There are local and segmented efforts. We are a member of a group of 11 credit unions at the moment which is trying to introduce a debit card and it has been a tortuous road. My own credit union has been in and out to the Central Bank for four and a half years just to try to get agreement to introduce technology that is over 20 years old. As members know, the debit card is now moving towards contactless and mobile formats. We openly admit we are struggling to catch up. We need to catch up but we just find that hurdles are consistently put in our way in trying to get into the market. Unless we get into it, we will not attract younger members.

The amalgamations are happening. The extension of ReBo will add to that further.

I will defer to my colleagues on the Government funding.

Mr. Kevin Johnson: On whether the Government is the borrower in respect of social housing, it does not have to be. Our proposal, to which I referred, is very consistent with Government policy, which is to take the type of financing off-balance sheet for the State. The credit union would actually be the lender. Our proposal clearly sets out the risks and how they would be managed.

Deputy Robert Dowds: How far has the association got in that regard?

Chairman: The Deputy's time is up. We must move on.

Mr. Kevin Johnson: I would be very happy to share the details with the committee. We can explore that.

Deputy Kieran O'Donnell: What percentage of the income of an average credit union was traditionally from savers' money on deposit? What percentage came from loans to customers? Has it changed?

Mr. Kevin Johnson: It has changed.

Deputy Kieran O'Donnell: By how much?

Mr. Kevin Johnson: It has shifted and is in transition at present. As the Deputy probably knows, one of the biggest challenges is that credit unions are approximately 27% or 28% lent on average. Traditionally, the income split would probably have seen in the order of 17% of the income coming from the loans.

Deputy Kieran O'Donnell: A ratio of 70:30.

Mr. Kevin Johnson: Roughly. That is changing now, particularly as the loan balances are falling. Moreover, since there is pressure on the investment portfolios, the returns are diminishing. One has to be careful in that the challenge is not just with the shift in the percentages; it is with the actual income also.

Deputy Kieran O'Donnell: My question really relates to the practical model for keeping credit unions viable. What is the percentage of deposits over €100,000?

Mr. Kevin Johnson: Currently, the number is very small. I believe it is approximately 1%-----

Deputy Kieran O'Donnell: Is this regarded as a reputational issue in terms of the limit of €100,000? With a view to having a sustainable model for credit unions, what are the current policies or changes that need to be made to provide a credit union with a balance sheet that is solvent and profitable, that can result in the paying of a dividend to members and that allows for lending to individuals and small businesses? What is the logic for wanting to go into the property market? There are risks associated with it.

I am a great believer in the credit union movement and have dealt with it professionally at every level over many years. I just want to get into the space on a practical level and strip away all the abstract talk and distil the matter to the basics regarding what the credit unions need to have in place. There are obviously risks and that is why only 1% of deposit holders have over €100,000 on deposit. Could the delegates strip it down to the basics? What needs to be put in place to bring about a solvent, profitable and dividend-paying credit union movement for members? I am really referring to the old basics.

Mr. Sean Hosford: To go back to basics - the magic answer - our current difficulty is essentially that the bulk of loans on our loan books are unsecured. Some balance needs to be brought to our loan books. As Mr. Johnson rightly says, the loan-to-share ratio nationally is between 25% and 30%, which is quite low. We have an amount of money to lend. Our traditional market has been the personal loan market, involving loans with terms of under five years. We need to look beyond that.

On the housing market and risks attached thereto, we have all learned a salutary lesson. There are risks in the personal loan market. Lending is risky, full stop.

Deputy Kieran O'Donnell: Why does the movement see the need for the business model to shift from having loan terms of five years to having loans terms of ten years, for example, even for personal loans?

Mr. Sean Hosford: It is not even about shifting, it is to bring a bit of balance to the loan book. I am CEO of the Health Services Staffs Credit Union, a large industrial credit union. We have a loan book worth over €100 million. The loan book turns every 28 or 29 months, that is how quickly the loans are repaid. Therefore, one must be lending very quickly because the money is coming back in as quickly. If a certain proportion of our book had loans with terms of ten, 20 or 25 years, it would give a steady stream of income and put us in a stronger position.

Mr. Kevin Johnson: In talking about property, we are not suggesting credit unions charge wholesale and head down towards competing in the mortgage market, as we know it. There are certain areas of the market that are seriously under-served. We have mentioned social housing. It is a serious need.

Deputy Kieran O'Donnell: Do the delegates envisage a cap on the value of the mortgages that credit unions could approve?

Mr. Kevin Johnson: One will find that many credit unions understand risks and how to manage them. They know how to impose the limits themselves.

Deputy Richard Boyd Barrett: I thank the delegates for their presentation. I did not really have any doubts about the case they made on the credit union legislation. If I did, they completely persuaded me as to the merits of their case. Given all that has happened, it is really quite extraordinary that the case they are making is not having a greater impact on the Government. Lending is risky but, quite obviously, lending by institutions that are not for profit is less risky. To me, that is so self-evident that it is beyond question. The credit union movement has proven itself in that regard in the teeth of the biggest financial crisis the country has ever faced. Whatever problems it had - it had a small number - they were just a drop in the ocean by comparison with those of the profit-oriented commercial banking sector.

The entire banking system should be run like the credit union movement. For-profit banks should be put out of business. I am completely on the side of the delegates. Could they enlighten me as to why the Government is not listening? There are Members of the Houses who, in this debate and in that relating to the credit union legislation, have been falling over themselves to say how much they love the credit unions. However, they do not seem to have listened to the case the delegates made this time around and in respect of the legislation. They said that the one-size-fits-all approach and tiering proposed by the Government are not appropriate for the credit unions and are a stumbling block to the development of new services and to the sustainability of the movement. Therefore, why the hell is the Government or the Central Bank not listening? Perhaps the delegates will enlighten us as to which one is not listening. I am a bit baffled.

I am shocked to my core that the Government and Central Bank have not taken up with speed and urgency a suggestion made by the credit union representatives in 2012 when what became the Credit Union and Co-operation with Overseas Regulators Act was being debated.

They said they could contribute substantially to dealing with the social housing crisis. All we hear from this Government is that it takes a few years to build houses so it cannot solve the problem immediately. The big issue that the Government always cites is that it does not have the capital upfront, but two years ago the credit unions offered the capital upfront to help solve the social housing crisis. Mr. Johnson or Mr. Farrell said that in response to the credit unions' suggestions on this, the Government said that it was only a medium-term priority. Is that really what it is saying? That is quite extraordinary. We are in an emergency situation which has been looming for two years around social housing. The credit unions offered the Government the capital on a plate. I do not know what the Government is saying. Could Mr. Farrell or Mr. Johnson elaborate on that? I am baffled that the Government considered it a medium-term issue. Could Mr. Farrell or Mr. Johnson enlighten me about what is wrong with the Government?

Mr. Ed Farrell: The Government's social housing strategy paper published in November 2014 said that outside money such as pension and credit union funds could be put into a State-owned financial vehicle to fund the provision of social housing. That piece of the social housing strategy was medium term. It had other ways of getting funds, probably more directly, and the priority was to get that piece moving. This was a second phase. On that basis, we put the current proposal together to construct our own vehicle. It was not that social housing was a medium-term strategy but that the element of the strategy was medium term.

Mr. Kevin Johnson: We share the Deputy's bewilderment. This time we are not asking for anything other than what we all signed up for. There was a package of recommendations from the commission. The credit unions have gone through significant change and taken on the challenges of implementing the new governance requirements. What was perceived as the balancing benefit was that they would be allowed to do different things as a result and that the regulations would be proportionate to the nature, scale and complexity of each credit union.

Deputy Richard Boyd Barrett: On the social housing side of it, Mr. Johnson seems to be saying that the Government has not lived up to the deal. Is it correct that the restrictions on credit union investments are part of this inappropriate regulation that is blocking development?

Mr. Kevin Johnson: To be clear, certain recommendations were made within the commission. I am not talking about a specific recommendation. We are talking about social housing and currently there are two proposals which are very complementary because they can manage the risks that were mentioned earlier. Depending on the stage of development of social housing, there are different approaches that can meet that. The recommendations were to look for ways to deliver on these things. That has not happened. That is the frustration.

Deputy Richard Boyd Barrett: Does Mr. Johnson have an explanation? The thing that seems to be thrown around is the management of risk, which baffles me somewhat. Obviously, risk has to be managed, but the record would imply that, in general, the credit union movement has managed the risk pretty well. It did not require big bailouts. Only a few credit unions got into trouble - one in particular - and a few others had some small problems. How is the Government or the Central Bank - whichever is making the calls on this - justifying the delay or the failure to respond the credit unions' requests?

Mr. Sean Hosford: As Mr. Johnson said, we are baffled. Everybody loves us but nobody seems to be able to help us.

Chairman: Deputy Boyd Barrett feels like that sometimes.

Deputy Richard Boyd Barrett: That is true.

Mr. Sean Hosford: We consistently try to do the right thing. Some of us will be at Finglas Credit Union tomorrow, where the personal micro-credit loan will be launched. The Tánaiste, Deputy Joan Burton, and the Minister of State at the Department of Social Protection, Deputy Kevin Humphreys, will be there. I am sure they will tell us what great people we are. It is credit union money that was put into this scheme; it is not Government money. Credit unions have always worked in this area. It is nothing new to us. Eight or ten years ago, we presented to Deputies and the Central Bank on the interest rate that was being charged by licensed moneylenders. Nothing was done about it. This is an area we have always worked in. The Deputy has expressed what we are feeling - we continually do the right thing but we do not seem to get any reward from official Ireland.

Deputy Richard Boyd Barrett: One might suspect that the commercial banks would feel very threatened by the credit unions. I can see why. I hope that threat is realised because I trust the credit unions more with banking. Is that force at work? Are the banks frightened that if the credit unions expand their service offering it will seriously challenge the for-profit banking sector?

Mr. Sean Hosford: As a business, we would have to be seen as a threat.

Mr. Ed Farrell: There are some people in the grassroots of credit unions who believe that because investments are so restricted, any surplus moneys they have will end up in a bank. As I said earlier, investments are either bank deposits or Government or bank bonds. The banks are closing down local branches and credit unions are trying to stay open. The introduction of the €100,000 restriction means that when more mature members come in and their balances go above that, the credit unions will have to send them back out to the branch of the bank. If it is closed, they will have to go to the next town to wherever a bank is open. Directly and indirectly, credit union members' money is ending up in the banks. There are people who think it is a result of policy rather than accident.

Deputy Richard Boyd Barrett: The credit unions have my support. Sadly, I did not get speaking time on tonight's motion, but I will certainly vote for it. I hope we can advance this struggle towards a successful conclusion. I am bemused by the social housing issue. I have made that point. I hope that can be advanced.

On the issue of the debit card, will the witnesses elaborate on what obstacles have been put in their way? It is quite extraordinary that they are being blocked on that.

Mr. Sean Hosford: I am happy to say that the debit card is being tested on a pilot basis and we are ready to roll on it. There was a huge debate on how we could withdraw money. In credit unions, if members have a loan, the shares are pledged against it. We got over that obstacle and the next one was whether it was an exempt service under section 48 of the Act. We got a legal opinion and so too did the Central Bank. We eventually had to agree to disagree. It then moved onto the question of whether we could operate a payments account. The European payments directive said that we could operate a payments account but the Credit Union Act does not say that specifically. Arguments like that delayed the project, but I am happy to say that it is in its pilot phase and is ready to go. We have been trying for four or five years, so it is old technology and is leaving us behind in the race.

Mr. Kevin Johnson: It is not only banks. There are many new competitors in the personal lending market and there are new delivery mechanisms. The credit unions need and want to evolve. That means having to do some new things and doing some of the old things in a new way. I would not like anybody to think that we suddenly want to jump from being a credit union to being something else. That is not the case. It is an evolution and we are very conscious of managing the risks along the way. I would hate anybody to think we want to go into development finance or anything bizarre like that. One thing that we cannot lose sight of is the current and potential future members of credit unions. This is about the ordinary person and giving him or her a credible alternative where they can avail of financial services. That is a critical thing in all of this.

Deputy Michael Creed: I thank the delegations for the presentations which have been most interesting. There is a debate in the Dáil tonight and there are parallel debates going on between the credit union sector and the Department. I hope we can collectively aim for an end game which involves something that is workable for everybody, not least the punter out there who puts his or her money in trust with the credit unions. I know that is what the credit unions want as well. We must be cautious as we go from an era of light touch regulation that we do not end up with a situation where we put people into a straitjacket that would not work for them either. I am generally conservative on the matter. I am in favour of making haste slowly. I would rather err on the side of caution than make the mistake of not sufficiently regulating the sector. We are involved in a process on which I hope we will reach a successful conclusion.

With your indulgence, Chairman, I will do a little bit of fishing. I do not wish to ask anyone specifically but whoever thinks it is appropriate to his or her area can respond. Most of the people in financial services to whom I have spoken said that in a recession people saved more. The credit unions now have to deal with a lot of money sloshing around and on which they must get a return. People have not been borrowing as they were previously because they were mending household balances among other issues. The credit unions now have the problem of having a lot of money on deposit. Is there a danger that the credit unions will get the balance wrong between long-term lending, which they want to get into, for example, the housing market, and short-term lending, which has been the core business of credit unions? I refer to the college grant, replacing the car, dealing with the hole in the roof or whatever else. Just because the credit unions have the immediate problem of having a lot of money on deposit, they could get the balance wrong and we could make regulations which might be out of sync with what might be a more normalised economy in a few years' time.

The credit union movement is a very effective lobby group. I received many representations in my constituency but I did not get representations from all of the credit unions that operate there. I thought that was strange so I decided to make some inquiries on the matter. Why do some credit unions currently have their own in-house rules to the effect that they do not want deposits in excess of €100,000? Why do some credit unions consider that prudent and others do not?

Mr. Sean Hosford: I will take the second question. Some credit unions decided themselves during the recession when people were saving, and essentially paying them credit, to prudently, as the Deputy correctly said, impose a savings cap. I am not aware of how many did that. Most of my experience is from a background in an industrial credit union. We have loan demand and where that exists, we will continue to take in savings. We are above the national average. The indications in the movement are that loan demand is beginning to return. The answer to the question is that individual credit unions have taken that choice. What we look at, as a credit union, is consumer choice. Effectively, if a cap is imposed, there may not be many but we would have to go to a number of members in our credit union to ask them to take their money out. Where will they take their money? Essentially, they will take it to the high street bank. Is the Central Bank or the Department telling us that it is safer for people to put their money in a bank than in a credit union?

Chairman: Is it not part of the regulations that credit unions can apply to keep those funds? The credit unions do not have to ask people to take funds out.

Mr. Sean Hosford: No, the regulation is that one can apply to keep what one has but the credit union cannot take new money. In our case, there will be a requirement on us, if we want to apply to keep the amount of money that we have over €100,000, to move €7 million in-vestments from higher earning deposits to lower earning deposits because of the requirement to increase our liquidity. In actual fact, it will cost the credit union more in income to apply to hold those moneys than the money is earning for us.

Deputy Michael Creed: I gleaned from Deputy Mattie McGrath's contribution to the de-bate last night that 55% of credit unions will be affected by the cap. Half of the credit unions have individual deposit holders and the other half do not and are unaffected. Of the half that are affected, what percentage of their total deposits are in accounts of more than €100,000?

Mr. Kevin Johnson: It is in or around 1%. We know it is a very small figure.

Deputy Michael Creed: It is 1% of deposit holders but what percentage is it of the total amount of €11 billion on deposit?

Mr. Kevin Johnson: It is less than 5% of the total. We need to be careful. If we link the two questions, the earlier one was about regulation, one point on which we should be very clear is that all three bodies have been very consistent in stating that they want robust, appropriate and proportionate regulation. That is not in question here. I think what the Deputy is saying is that the fear was that in seeking to involve the credit unions, we would be looking for lighter touch regulation. That is not what we are saying. What we are saying is that what was agreed by the commission should be proportionate and that it would reflect the nature, scale and complexity of each credit union. The problem we have had is that we are presented with a one-size-fits-all solution and this is the second time around with CP88. It is important to remember we also had CP76, which was the first attempt to present a tiered regulatory structure. What that did was put all the credit unions on the left hand side of the diagram that I showed the committee and then there was an unknown process to get out of it but it was never explained how anybody could ever get out of it. The concern that we had then, and we still have now, is that there is insuf-ficient consideration for future advancement of the changes to the credit union business model. The registrar and the Central Bank have stated on occasion that there would be engagement with stakeholders on development, which is very welcome, but that should happen before the rules are put in place not after.

To tie in what I have said with the savings limit, first, one must remember that savings are the only source of funds a credit union has, as we do not take capital from external sources. The second thing is that it is a member's choice. Even with all the new deposit guarantee scheme re-quirements coming in, no matter what institution a consumer saves with, they must be informed about exactly what is covered and what is not. It is no different with us. Ironically, there are even opportunities within the new deposit guarantee scheme, DGS, requirements where amounts of more than €100,000 would be covered and yet a person could be penalised if he or she were with a credit union, as he or she would not get the advantage of that. The point I am trying to get at is that nobody is suggesting that there needs to be lighter regulation-----

Deputy Michael Creed: I appreciate that.

Mr. Kevin Johnson: -----what we are simply saying is that it needs to be proportionate and allow credit unions to evolve.

Deputy Michael Creed: What about the appropriate balance to be struck in terms of long-term savings? Since we are coming out of the recession, credit unions have a lot of money on deposit. As the economy picks up, people might consider changing their car, going on holiday or extending their home. As that level of activity picks up, the credit union business of short-term lending will pick up and that money on which credit unions are searching for an optimum return now, which might be in longer-term lending, may no longer be a problem in two or three years' time. The credit unions are looking for an immediate, long-term solution for what might be a short-term problem. If the money on deposit was put into long-term loans, it might not be available then for the core business.

Mr. Kevin Johnson: I think that balance is something that definitely would be managed. I tried to make the point earlier that we are not talking about shifting from one end of the spectrum to the other end overnight. That is not what is intended at all. As Mr. Hosford mentioned earlier, it is about balance. Credit unions have operated a personal lending market. As was pointed out earlier, in a recession people save more and borrow less. The actual market has declined by over 66%. Credit unions have held their market share in all of that. As a result, there are more funds available.

We are not suggesting that there has to be a free-for-all of providing loans. We are saying that the expertise resides within credit unions to enable them to meet a lot more of the existing needs. The types of things we have been talking about this afternoon, such as social housing, have a definite requirement for funds - for example, the housing boards. They are crying out for funds and we are saying they are here available. That is a relatively low-risk model and fits nicely in with the credit union.

If the credit unions are able to do some longer-term lending, they can start providing longer-term savings for members and the internal balance management will start to take place. There is a lot of expertise within the credit unions. This is already manifested among those which impose their own limits to manage their balance sheets appropriately and ensure they are viable.

Deputy Timmy Dooley: I thank the witnesses for their presentations. I was at another committee, but I am familiar with what they require and very supportive of it. It seems to be a relatively straightforward requirement. The demands of credit union members are changing and the credit unions are responding. The difference between them and a bank is that their principal requirement is to serve their customers. At the end of the day the bank is ultimately about serving the shareholders, which is a completely different subset of individuals within the overall mix. I fail to understand why the Government would not respond in a more favourable way and recognise where the credit union is coming from as a not-for-profit organisation.

There are a couple of things that follow from this. Diversification can only reduce risk. The more a product offering or investment strategy is diversified, the safer the overall standpoint has to be. If the demand for the credit union's product mix is changing, its investment strategy would have to change in line with that. However the customer might view the product, the people who have to provide the funding behind it need an investment strategy, exactly as Mr.

Johnson has said. I disagree with my colleague who has left in respect of the size of the investment and the nature of the money. The credit unions are not looking at this purely from the point of view of having a lot of cash washing around. That does not reflect where they are at. We must recognise that the credit unions have a changed environment, with changed demands from the customers. There are opportunities there and the credit unions can provide competitive products, and rightly so. If they sit on their hands and continue to provide the same products they will become insolvent over time and irrelevant.

Taking all that into consideration, it is a compelling case that will have to be addressed over time. There is a unique opportunity now that we have come through the banking apocalypse, as it were. The credit unions are starting from a completely different point. There is definitely a need for competition within the lending sector. We all know about that from the number of representations we get from constituents on an ongoing basis. We regularly refer people to the credit union. Some lost touch with the credit union during better times when money was being doled out like confetti. They are now re-engaging.

From my experience in assisting constituents, they are getting a very fair hearing, whatever their credit rating might be. The credit union's community structure is far more intuitive in terms of understanding risk, in contrast to the way in which the pillar banks have gone. A lot of the assessment is at a remove and online, and there is an awful lot less personal interaction. The credit unions maintain that, which gives them a better capacity to profile the risk of the individuals within their membership base.

Deputy Michael McGrath: I have a technical question on the signing into law of the regulations. Is it open to the Minister to sign those any day or is he due to sign them at the very end of the year, to come into effect on 1 January? This is in the context of my opening remarks about our meeting the registrar and still being in time to possibly influence the decision of the Minister.

Ms Elaine Larke: We do not actually know when the Minister intends signing the regulations. It was indicated that it would be toward the end of the year - that they would be signed closer to when the Department finishes for Christmas. We do not know of any reason they cannot be signed sooner, merely that the commencement date would be aligned with that of the regulations, namely 31 December. Unfortunately, we do not know.

Mr. Kevin Johnson: If I could jump ahead of the Deputy's question a little bit, we are not aware of any compelling reason why 31 December is so set in stone. The point of having the review was to ensure that we get this right and have the time to do it. We are all comfortable that there is no crisis here. There is time to do this, so why not do it once and do it right? That is really what we are saying.

Deputy Michael McGrath: I suggest that we write to the Minister and ask him to allow us time and opportunity to have an engagement with the registrar prior to taking any step. At least he might give us that window. The onus will then be on us. I will be putting a proposal to the committee after that hearing that we ask the Minister not to sign at all.

Chairman: We can do that, Deputy McGrath.

Deputy Michael McGrath: Thank you.

Chairman: We have had a fairly good debate on this and have had two Private Members' motions also. We are down in the bowels of this place and even though we might think we are on TV, nobody is watching. It is the nature of these committee hearings. In the Dáil Chamber the tone is more “Credit unions, good; Government, bad,” and there is nothing in between.

There are issues here. A report was written by the commission with 75% of the recommendations. Everybody was represented on that commission. What has gone wrong? Things are better. The credit unions’ financial position is better and there is less concern. What is the story? Is it a very conservative regulator who is opposed to taking on too much of a workload in dealing with tiered regulation through the credit union system? Is there a fear that if something goes wrong or is missed there will be a blot in the copybook? Is the conservative approach being chosen of imposing restrictive regulations and treating them all as bad boys? We have passed a lot of the legislation here in conjunction with the credit unions and with the recommendations of the commission. We have all been playing ball together, so what has suddenly gone wrong that we find ourselves at odds?

Mr. Sean Hosford: In our engagements with the regulator, particularly around the cap on savings, which has become the major issue, when I asked for a rationale I was told there was a concern that we would wake up some Monday morning and find that the deposit guarantee scheme had to be invoked because some credit union somewhere had got into difficulty and nobody knew about it, causing a member to lose money.

In our daily work in credit unions we have risk officers, risk committees and compliance officers. We have an internal auditor. An auditor from an external accountancy firm comes in to audit us four times per year. I have an external auditor who does interim and year-end audits.

Deputy Timmy Dooley: Perhaps Mr. Hosford could give the contact number to the IFA.

Chairman: There is also a contingency fund for this sort of thing. Is that not correct?

Mr. Sean Hosford: We have our own savings protection scheme, SPS. We are affiliated to the league. We have a league monitoring scheme. Given the size of the credit union, we have one probability risk and impact system engagement per year.

Chairman: You have obviously repeated this. This is *déjà vu* for you. You have said this to the regulator. What did the regulator say to you?

Mr. Sean Hosford: What I am saying to the committee - I have said it to the regulator - is that if we wake up one Monday morning and a credit union is in difficulty, then some people are not doing their job, but they are not in the credit unions.

Mr. Ed Farrell: This is not sudden. The CP88 document has been published for almost a year. It was published before Christmas. Even before that, there was a particularly difficult relationship between the movement and the Central Bank of Ireland. I suppose this has built to something of a climax now. The CP88 document has been out for a year. There was a three-month window during which over 100 submissions were made by the end of March.

At the end of July the final CP88 version came out. It took on board practically nothing from the 100 submissions. It has not proved to be in any way a two-way dialogue. In the coming five years we see credit unions being micro-managed by the same rules that have been in place for the past 20 years. Indeed, the rules seem to stretch backward in the area of savings and so on. It is keeping or even pushing credit unions backwards rather than allowing them to develop. This is not sudden. There has been a hardening of the relationship for quite some time. We do not seem to have a regulatory process that has the understanding of the details of credit unions.

Ms Elaine Larke: I wish to come in at this point. A major flaw in the CP88 paper was that the regulatory impact analysis attached to the document was based on the credit union as it is today. However, our regulatory authority has told us in numerous speeches that our business model needs to change. Really, we are calling for a regulatory impact analysis to see how CP88 would impact on credit unions in future, in other words, on how credit unions would look in five years' time if the regulations from CP88 were imposed. There is a need to change our business model. We know that. The regulatory impact analysis did not take that into account. It did not take into account that we need to consider other means of savings and lending products. That was a serious flaw. Perhaps it is one of the justifications in suggesting that CP88 is appropriate, because it relies on the regulatory impact analysis.

Chairman: Let us hear a little more on that. You are saying the regulator is not taking into account the future of the credit unions and that the regulator does not understand the business model of the future for credit unions. Is that correct?

Mr. Kevin Johnson: We have to remember that CP88 takes all the existing rules. It copper-fastens those for the coming years. Then, it added more on top. A major concern we have relates to lending. We had a good discussion around section 35. However section 35 was supposed to be overhauled as part of this process, but it was not. It has now been copper-fastened. On top of that, we get categories of lending with additional limits on those categories. It is always the lower of the two.

Chairman: Surely the regulator understands that the section must be altered to take account of the future. Is that not the case?

Mr. Kevin Johnson: I would hope so, Chairman. Again, in the interests of fairness, some of the engagements directly with credit unions in recent years have strengthened the credit unions and improved the overall governance. That is why we have bought into a package. However, when we get to the one area that allows us to move on, that is the concern we have and that is the part we do not understand. Why is that the case when we now have stronger, more competent and more capable credit unions?

Chairman: Mr. Farrell, you made a point earlier. Obviously, you are embedded in this considering your role. Are you saying that the relationship between the credit unions and the regulator needs to be improved dramatically?

Mr. Ed Farrell: Credit unions have found the regulatory process and the relationship with the Central Bank to be very difficult. It has been 11 or 12 years since the credit unions began to be regulated by the Central Bank. As the crisis proved, the credit unions did not mis-lend or over-lend. That is clear because only a small number were in trouble during the crisis. They proved that they managed their balance sheets fairly prudently. Yet they have been subjected to a rather difficult and uphill regulatory environment and a particularly negative one.

Credit unions are in contact with us on a regular basis. We try to help them through the processes, debates, dialogues and meetings with the Central Bank. It has been a difficult relationship. Credit unions find that they are over-regulated. They were never subjected to light-touch regulation. Thankfully, I suppose, we came out of the other side of the crisis intact because of prudent management and appropriate levels of regulation. However, certainly in the past five or six years it seems to have become far heavier than it was. This was probably unnecessary, because we were managing our balance sheets and moneys in a prudent fashion. We bought in to it. We undertook risk, compliance, internal audit, strategic planning and fitness and probity work. All voluntary people now must subject themselves to testing in the Central Bank. Even the voluntary chairman of a credit union has to be interviewed by the Central Bank to take on the voluntary job as chairman of a credit union. That is a considerable journey that credit union people have taken. They have bought into it and they have taken it, but they cannot see the reward of developing a business model as the gain for the pain, as it were.

Chairman: You can imagine many Members in the Parliament will have formal and informal discussions with each other as well as with officials and Ministers on this issue. Can you give me a little background on what you were saying about the honest broker, someone in the Department of Finance? What is the theory behind that?

Mr. Ed Farrell: We were at a meeting with the Minister last Thursday week. Ms Ann Nolan was at the meeting with the Minister. We have to engage with her to see if there are any amendments that the Central Bank might bring through on the CP88 measures before they get enacted. That engagement is starting on Thursday.

Chairman: You are going to bring the amendments. Is that correct?

Mr. Ed Farrell: No, we are meeting Ms Nolan on Thursday to point out our main issues of concern with CP88. Our understanding is that she will then relay them to the Central Bank to see whether there can be any leeway or movement. That is my understanding of the process.

Mr. Kevin Johnson: At the meeting the three of us attended with the Minister we were asked to outline our main concerns. We have done that and we submitted them in writing. As Mr. Farrell mentioned, we will meet the second Secretary General tomorrow.

Chairman: Have you outlined most of those concerns to us as well?

Mr. Kevin Johnson: Yes, members would be aware of them.

Mr. Ed Farrell: It includes all the issues we have discussed, such as lending, savings, reserves, social investments and so on.

Chairman: There was a comment on social housing and how credit unions could arrange a fund. Credit unions can do that anyway. Is that correct? If I remember rightly, the Minister of State, Deputy Harris, spoke about this last night. Did he not say there are no restrictions on credit unions organising this?

Mr. Kevin Johnson: That may be in reference to what credit unions can do under section 44 of the Act. They can establish a fund. In the first stage a credit union can put in 2.5% of reserves. Following that 0.5% of the annual surplus can be put into that fund, with the permission of members at an annual general meeting. However, that is for a different purpose. Many credit unions use that. However, what we are talking about is on a larger scale. It would need to be done.

Chairman: Does that require the Minister or the regulator?

Mr. Kevin Johnson: It depends on how it is actually done. It was stated last night that there are a number of proposals. Some would be realised through regulation and others would need-----

Mr. Ed Farrell: When CP88 starts it will be a matter for the regulator. As of now, it is in the legislation, but it will be different when CP88 starts. That is the reason for the recommendation in the commission report to the effect that the investments credit unions are allowed to undertake should include social and community investments. That recommendation from the commission report found its way into the 2012 Act. However, it has not found its way into the proposed regulations. If they start in January, it does not include the community social investment.

Chairman: Did Mr. Farrell say it does not?

Mr. Ed Farrell: It does not.

Chairman: In other words, they can be done by regulation now.

Mr. Ed Farrell: It is included in the Act.

Chairman: Now.

Mr. Ed Farrell: Yes, when the Act commences, the regulation kicks in but it is not in the current final draft of the regulations.

Chairman: Will the regulator decide whether the social housing fund can be established?

Mr. Ed Farrell: Ultimately. We are now meeting with officials from the Department of the Environment, Community and Local Government. We are looking to work with the various stakeholders to try to convince the regulator in due course that this is a good, prudent proposition. We hope the rule will be changed. However, it would be easier and quicker to get a project up and running if the regulatory rules did not need to be changed. It will take time to get the fund, the Department of Environment, Community and Local Government and the project people on board to do it, without having to start the process of changing a rule.

Chairman: As there are no further questions, on behalf of the joint committee I thank all the witnesses who participated and for the material they supplied to the committee. They may be invited to return in view of the way the conversation is going. Do members agree that we make all of this material available on the website? Agreed.

The joint committee adjourned at 2.05 p.m. until 5.15 p.m. on Tuesday, 1 December 2015.